

Provident Bank Playing Catch-Up

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In a world of bank mergers and massive consolidation, Provident Bank of Maryland aims rather towards retaining its local, more personalized atmosphere. Provident Bank got its start in Baltimore, Maryland, today's headquarters, 119 years ago. Its meager origin as a mutual savings bank serving the seafarers of the Port of Baltimore is unrecognizable today, with a reported \$4.9 billion in assets. The catalyst to this surge occurred quite recently. In 1987 Provident became a commercial bank firmly establishing its aged roots in the Baltimore Metropolitan area. Since then it has matured more still by expanding branches throughout the Baltimore-

Washington corridor, Northern Virginia, and southern York County, Pennsylvania. With the help of new Chief Executive Officer Gary N. Geisel, Provident will continue to strive to maintain its localized services while providing the amenities that twenty-first century bankers in the Mid-Atlantic require.

The 2002 Summary Annual Report released by the holding company Provident Bankshares Corporation, at www.provbank.com, shows that Provident is a bank on the move. It has secured its customer base in the greater Maryland region and seeks to remain viable with the growth of their larger competitors in terms of convenience options, such as telephone

and Internet outlets known as Provident Direct. They have expanded their branch locations almost two-fold in the past seven years; most especially in the Washington metropolitan area (see Appendix A). One way Provident has expanded its locations has been through acquisitions of other local and regional banks. On August 31, 2000, the final transaction of the acquisition of Harbor Federal Bancorp, Inc., the parent company of Harbor Federal Savings Bank, was completed. This purchase added an initial four branches effective immediately. Such attainments in effect expand customer base, as well, by use of name recognition and loyal customers to the bought-out bank. This acquisition in particular played a pivotal role in Provident's overall performance in 2000, increasing its assets by \$405 million. There were other various externalities affecting Provident's banner

year in 2000; however, much of it can be attributed to the acquirement of Harbor Federal Bancorp's branch offices, assets, and stock.

Provident Bank's total assets, including their financial claims and property, steadily rose from 1998 through 2000 topping at \$5.4 billion (Appendix B). However, Provident Bank's total assets reflected the downturn of the economy in 2001 dropping about \$600 million. The end of 2002 did not fare much better thanks to the receding economy with total assets dropping another \$9 million. These past two years should be no large disappointment to CEO Geisel, though, due to the fact that 2000 was an above-average year in terms of growth with its acquisition of Harbor Federal Bancorp. Relative to Provident's total assets pre-acquisition, the decline seen

in 2001 merely reflects typical business cycle fluctuation.

Provident's total deposits over the same time span concur with the findings in the previous total asset analysis. Deposits increased from 1998 through 2000 peaking at \$3.9 billion (Appendix C). This steady growth was again followed by decline in both 2001 and 2002, though not as drastic as that seen with Provident's total assets. By the end of 2002, total deposits weighed in at \$3.1 billion.

Provident's return on average assets (ROA) fluctuated steadily between 1998 and 2002 hovering in the 0.8-1.0% range (Appendix D). The only note-worthy year of these was 2000 when the ROA dipped to 0.73%. This decline can be explained again by the acquisition of Harbor Federal Bancorp. Return on assets is the single best indicator of a bank's profitability, as it

measures how much profit is gained with each dollar of assets. The year 2000 was a low year with regards to this indicator, not because of a lack of efficiency, but due to the fact that net profit after taxes decreased. Provident incurred higher expenditures with the acquisition of Harbor Federal, which was thus reflected in the ROA measure. In general, prior to 2002 the ROA indicator shows below-average efficiency, as it wavers under the 1.0% marker. However, 2002 shows improvement with ROA hitting exactly 1.0%.

Provident showed a steady increase in the tier 1 risk-based capital-to-asset ratio from 1998 through 2002 (Appendix E). This ratio is derived using shareholders' equity and risk-weighted assets. It is a measure of the bank's ability to cover itself with enough capital to guard against credit risks such as loan claims and shareholdings.

To be safe, a bank desires this ratio to be above 4.0%. Showing a great deal of risk management, Provident has been well above this mark, fluctuating in the 9.0-12.0% range over the past five years providing a more-than sufficient cushion in case of default on risk-weighted assets.

This is total speculation; however, it is quite feasible to conclude that the drop in total deposits after 2000, the acquisition year, can be attributed to the fact that Provident was not as competitive with the larger national banks with regards to convenience services. Extensive consolidation has resulted in economies of scale for these larger national banks, allowing for greater capital investment in new consumer innovations such as small business services, online banking, and greater branch and ATM networks. Provident has trailed the innovations of

these larger banks by several years in its implementation. Provident's Small Business Center opened in May 2001. This aspect of banking is one that has been in high demand with the increased number of new small businesses in the past five years, and Provident just caught up. The bank has been growing considerably relative to its small scale by opening more branches in its more firmly established areas, in addition to expanding to a new customer base in the Washington metropolitan area. These increases can only be tracked in the past six years, however. Despite the slower response time to the ever-demanding needs of its customers, it is completing its mission of providing banking services to a more personal, localized population while continuing to pride itself on its heritage and name recognition.

Resources:

- Provident Bank Website: www.provbank.com
- “Provident Bankshares Corporation Completes Acquisition of Harbor Federal Bancorp, Inc.” *PR Newswire*. September 12, 2000. Found using Lexis Nexis Business News.
- Publications and Research page of Reserve Bank of Australia: www.rba.gov.au.